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AUDIT REPORT

of

Center for the Aged
Department of Institutions

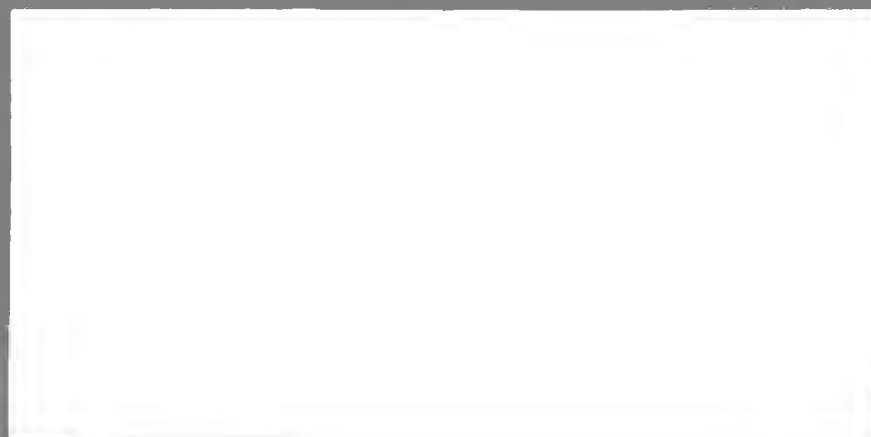
for

Fiscal Year Ended June 30, 1980

Prepared by
Haas & Hintz, P.S.C.



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
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AUDIT REPORT

of

Center for the Aged
Department of Institutions

for

Fiscal Year Ended June 30, 1980

Prepared by
Haas & Hintz, P.S.C.

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Department of Institutions
Helena, Montana

- Center for the Aged -
Lewistown, Montana

Department of Institutions

Mr. Larry Zanto
Mr. James L. Haubein

Director
Administrator, Management Services Division

Center for the Aged

Mr. Nicholas Cerovski
Mr. David Clark
Ms. Ruth N. Viertel

Superintendent
Business Manager
Director of Nursing

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

October 1980

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR
JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Center for
the Aged for the year ended June 30, 1980.

The audit was conducted by Haas & Hintz, PSC, C.P.A.s under a
contract between the firm and our office. The comments and recom-
mendations contained in this report represent the views of the firm
and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in cursive script, reading "Morris L. Brusett".

Morris L. Brusett, C.P.A.
Legislative Auditor

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report, we include a listing of all recommendations, together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations included in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Center for the Aged and the Department of Institutions is included in the back of this report.

| | <u>Page</u> |
|--|-------------|
| <u>Accounting Procedures</u> | 3 |
| 1) We recommend the Center request assistance from the Accounting Division, Department of Administration, in the use of SBAS for management purposes and to assist with training for the clerical staff. | |
| Agency Response: Concur. | |
| <u>Inventories</u> | 4 |
| 1) We recommend that fixed assets groupings be established for like assets, such as chairs and mattresses, if they are to be recorded on the fixed assets inventory. | |
| Agency Response: Concur. | |
| 2) We recommend that the supply inventories be checked and corrections made to the SIMS records | |
| Agency Response: Concur. | |
| 3) We recommend that journal entries be made to the Statewide Budgeting and Accounting System to enter and update supplies and fixed asset inventories. | |
| Agency Response: Concur. | |
| <u>Personnel</u> | 5 |
| 1) We recommend that the Center seek the additional FTEs needed to provide full-time, 24-hours-per-day supervisory personnel. | |
| Agency Response: Concur. | |
| 2) We recommend that the Center request from the Personnel Division permission to use shared positions for a FTE whenever it is feasible. | |
| Agency Response: Concur. | |
| 3) We recommend the Center make adequate plans to meet termination pay liabilities. | |
| Agency Response: Concur. | |

SUMMARY OF RECOMMENDATIONS

(Continued)

Resident Accounts System

6

- 1) We recommend the Center and central office review the Residents' Account System so that the reports are balanced and properly used.

Agency Response: Concur.

- 2) We recommend a more formal procedure be established for safe keeping of residents' personal property.

Agency Response: Concur.

Clothing and Medical Expense for Residents

8

- 1) We recommend that future budgets include expenditures for clothing and medical expense.

Agency Response: Concur.

The Canteen

8

- 1) We recommend that a new ledger card system be established for the canteen.

Agency Response: Concur.

Donations

8

- 1) We recommend the Center establish a policy to govern the acceptance and expenditure of donations.

Agency Response: Concur.

AUDIT REPORT
Center for the Aged
Montana Department of Institutions
Lewistown, Montana
Fiscal Year 1980

Comments and Recommendations

Description of the Center for the Aged

The Center for the Aged at Lewistown was built in 1952 as a home for the aged and senile residents from Warm Springs State Hospital. It has been a separate institution since 1975, although the residents are primarily transferred from Warm Springs. Since that time, Center policy has also allowed commitment by mental health agencies.

All residents must be at least 60 years of age, ambulatory, and able to basically care for themselves. In recent years, a treatment program has been developed with more emphasis on rehabilitation services and activities for the residents, rather than just custodial care. In 1976, two new wings were completed and, when staffed and furnished in 1977, the population was increased from 146 to 199 residents. The Center is usually 95 to 100 percent occupied and maintains a full staff of 99.

As required by state statutes, residents are billed for their care and maintenance, based on their ability to pay. The billing and collection for care and maintenance is maintained by the Department of Institutions' Reimbursement Section of the Management Services Division. The collection is not included in the Center's operations nor is the revenue collected recorded on the Statewide Budgeting and Accounting System (SBAS) for the Center. The Center's operation is funded entirely with a General Fund appropriation. They also receive a small appropriation to a revolving fund for the operation of the canteen for the residents. The Center occasionally receives donations which are deposited to an agency fund. Those monies are used to purchase items for the Center that cannot be purchased from current operating funds, or items specified by the donor.

The accounting records for the Center are maintained on the Statewide Budgeting and Accounting System with the exception of inventory records, which are recorded on the Department of Institutions' Supply Inventory Management System. The Center also holds monies for residents in a general checking account at a local bank. In addition, many residents have deposited in the local bank a savings account or an irrevocable trust account to pay burial expenses.

The Center received an appropriation for a paving and drainage project and installation of a new boiler, with the work to begin in the spring of 1980. These funds are administered by the Architecture and Engineering Division of the Department of Administration. The project was not begun as soon as anticipated; therefore, there were only minor expenditures prior to June 30, 1980.

We found the atmosphere of the Center friendly, courteous, and with a great deal more activity than we had anticipated for a facility for aged residents. The staff seemed

genuinely concerned about the residents, and appeared to be making every effort to provide good care despite the frustrations of operating with limited fiscal resources.

Fiscal Programs

The Center received a General Fund appropriation of \$1,561,833.00 for operations during fiscal year 1980. For management purposes, that appropriation has been allocated to four reporting centers entitled, "Administration," "Clinical," "Care and Custody," and "Therapy." The only restriction on the appropriation was a limit of \$10,000.00 for data processing services. The Center also received a \$10,000.00 appropriation for operation of the Canteen in the revolving fund structure. All income from the Canteen is deposited to the revolving fund for future operations. A small executive appropriation for \$3,029.00 was received to expend proceeds from an insurance claim for damage to the Center's smoke alarm system.

The functions of the Administration Program are to provide fiscal and personnel control, records, plant maintenance and overall planning and evaluation for the Center. It is their intent to operate the institution to meet Medicare and Medicaid standards for facilities for aged residents. The Clinical Program includes all of the nursing services provided to residents at the Center while the Care and Custody Program provides basic care needs and housekeeping for the residents. The Therapy Program includes the recreation department and the social work and work program established for the Center residents. The clinical and medical services are under the direction of Ruth Viertel, Director of Nursing Services, and the Therapy Program is to be under the direction of a Developmental Services Director; however, that position was not filled during fiscal year 1980. The Administrative and supportive services programs are maintained at the direction of Mr. David Clark, Business Manager. The Superintendent of the Center, Mr. Nicholas Cerovski, is responsible for overall management of the Center, under the direction of the Department of Institutions Director, Mr. Larry Zanto.

Scope of Audit

We have completed a financial compliance audit on the Center for the Aged for the fiscal year ended June 30, 1980. This audit includes financial and compliance reviews of the administrative functions of the Center, of the reimbursements collected for the Center by the Department of Institutions' Reimbursement Section and the construction project being administered for the Center by the Architecture and Engineering Division of the Department of Administration.

The audit also included a review of the Resident Accounts System, as maintained at the Center and through the Department of Institutions' computerized service for this service. We reviewed the operation of the Canteen which is maintained for Center residents and the funds received as donations to the Center. Our study included tests of the billing and reimbursement procedures used by the Department of Institutions to residents at the Center. The only federal funds involved in the Center for fiscal year 1980 were a small close-out for a prior year public service employee contract. We have relied upon other audit reports prepared by the Office of the Legislative Auditor for the Statewide Budgeting and Accounting System functions, the data-processing functions required for that system, for the payroll system, and a review of the Public Employees' Retirement System fund.

The audit procedures included an evaluation of the Center's compliance with applicable federal and state laws and rules for administration promulgated by the Department of Administration and Central Payroll system.

Objectives of Internal Control Review

As part of our examination, we reviewed and tested the Center's system of internal accounting control to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements, and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our study and evaluation of the Center's system of internal accounting controls for fiscal year 1979-80 would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. Our tests did not disclose any material weaknesses in internal control. However, those internal control weaknesses identified during the audit and which warrant management's attention are described in various sections of this report. The specific problems that we noted are discussed in the following sections, along with our recommendations for improvement in these areas.

We wish to thank Mr. Cerovski, Mr. Clark, and other members of the Center staff for their cooperation and assistance during this audit.

RECOMMENDATIONS

Accounting Procedures

The Center had two Business Managers during fiscal year 1980. Most of the accounting procedures and budgetary procedures on the State budgeting and accounting system were established by the manager at the beginning of the year, although Dave Clark, who came on staff in August, made some changes as the year progressed. The office staff is rather small, and the office space is extremely limited. There have been some recent changes in duties and responsibilities assigned to clerical staff, which has allowed for about the best internal control possible in the circumstances. The clerical staff all indicated a desire to know more about the Statewide Budgeting and Accounting System (SBAS) and its uses but, with the distances from Helena and the Center's limited travel budget, it seems unlikely the training will be readily available. The new Business Manager also indicated a desire to know more about the use of SBAS as a management tool. We understand the Accounting Division of the Department of Administration now has a training and systems staff available to visit agencies and help them to better understand

and use the Statewide Budgeting and Accounting System. We have suggested Mr. Clark request such assistance.

Recommendation:

- 1) We recommend the Center request assistance from the Accounting Division, Department of Administration, in the use of SBAS for management purposes and to assist with training for the clerical staff.

Inventories

The Center has recently put their fixed asset and supplies inventories on the Department of Institutions' Supply Inventory Management System (SIMS). Our review of the fixed assets portion of the system indicates that that section of the record is generally accurate. However, when we tested the physical location of the assets, we found that chairs, mattresses, etc., had been individually numbered and, in some cases, it was almost impossible to find the item. When I discussed the matter with Mr. John Thomas at the Department of Institutions, I was told that the previous auditor had required each item to carry a separate number. That procedure is not incorrect, but appears to us to be very difficult to maintain in an institution such as the Center. Residents very often pick up chairs and take them down the hall to another resident's room and return a different chair on the way back. Mattresses are often moved with the patient, and little thought is given to changing an inventory record on the computer at that time, and it would seem to us to be unnecessary to make those kinds of changes as often as would be necessary. We discussed with the Center staff the advisability of grouping like kinds of assets, and assigning one number to each group and counting the number of items with the same number for comparison to the asset record at the time of the physical inventory. We are not recommending at this time a massive effort to go out and change all of the inventory numbering system in the Center. However, as new items are received and as it is feasible, we do recommend that the change be made.

Actually, by State guidelines, items such as chairs and mattresses under \$200.00 in value need not be included in the fixed assets inventory. The Center may wish to number such items and include them in the supply inventory as a control measure.

Our review of the supplies inventory listing was not nearly as satisfactory. In the sample that we tested, we found numerous, rather large errors in either pricing or quantities on hand. These appeared to be keypunch errors, rather than accounting errors, but they did materially distort the total dollar value of the inventory. The Center staff tells us that they have not yet had time to review that inventory list and see what corrections were needed. We recommend this be done as soon as possible so that the inventory material is accurate and useful.

The information generated by the SIMS system does not integrate with the Statewide Budgeting and Accounting System on an automatic basis. The Accounting Division of the Department of Administration has recently developed the Property Accounting Management System (PAMS), which does integrate directly with the Statewide Budgeting and Accounting System. However, the PAMS system does not include supplies inventory, and we understand that SBAS does not currently have the capability to record supplies

inventories. We find no problem with the use of the SIMS system rather than PAMS. However, considering the materiality of both fixed assets and supplies, we recommend the inventory information be recorded in SBAS by journal entry so that the accounting records will include all the information required by generally accepted accounting principles. If recording supplies inventories requires modifications to SBAS, the Center should request assistance from the Accounting Division.

Recommendations:

- 1) We recommend that fixed asset groupings be established for like assets, such as chairs and mattresses, if they are to be recorded on the fixed assets inventory.
- 2) We recommend that the supply inventories be checked and corrections made to the SIMS records.
- 3) We recommend that journal entries be made to the Statewide Budgeting and Accounting System to enter and update supplies and fixed asset inventories.

Personnel

The biggest problem at any institution must be the maintenance of an adequate staff. In recent years there has been increased emphasis on residents' rights, the responsibility of the State to provide better care and activities and, at the same time, an increased demand for less money to be spent. The Center is divided geographically into two areas or wings, with a nurses' station serving each side. During the day, there is supervisory staff at the Center in addition to the two nurses and five aides for each side. In the evening, there are one or two nurses and five aides assigned. Between the hours of 5:00 p.m. and 7:00 a.m., weekdays and all State holidays and weekends, there are no supervisory personnel scheduled. During those night hours, there are no maintenance people at the center, which requires either one of the nurses or aides to check the boiler in the winter months. With vacancy savings required by budget restrictions, the Center has had difficulty in maintaining enough staff to meet Medicare and Medicaid requirements. Like other institutions, the Center must maintain 24-hour, 365-day coverage on these positions. We discussed with the Director of Nursing and the Administrator the possibility of maintaining some of their staff positions as part-time or shared positions and they seemed to feel that that situation would help to keep staff on hand. We suggested they contact the Personnel Division to request more shared positions. Then, we further recommend that every effort be made to obtain supervisory personnel during the evening, weekend, and holiday hours.

State statutes provide to each State employee annual leave at varying rates, according to the time they have worked for the State, in addition to one day's sick leave per month. There is a limit to the number of days of annual leave which may be accumulated. However, for an individual who has worked over 25 years for the State, that annual leave can be built up to nearly 64 days at the time of retirement. In addition, State law requires that one quarter of the unused sick leave be compensated to the terminating employee. The usual method of covering such terminations in State agencies is to leave the position vacant until such time as the accumulated sick leave and annual

leave is absorbed. However, this is extremely difficult in an institution such as the Center, with their required patient/staff ratio, 24-hour coverage, and vacancy savings needed. The Center has some staff nearing retirement age and we recommend they determine the termination pay as soon as possible so appropriate budget requests can be completed in a timely manner.

Recommendations:

- 1) We recommend that the Center seek the additional FTEs needed to provide full-time, 24-hours-per-day supervisory personnel.
- 2) We recommend that the Center request from the Personnel Division permission to use shared positions for a FTE whenever it is feasible.
- 3) We recommend the Center make adequate plans to meet termination pay liabilities.

Residents' Account System

The Center maintains what is essentially a banking service in-house for the residents. Residents are able to deposit funds, withdraw them, and/or have Social Security or pension checks deposited to their accounts, all at the Center. In addition, they may purchase items at the canteen or downtown and have those bills paid from their funds. Many of the residents also have a trust account for burial expenses and, as a result of certain litigation, amounts have been set aside for care and maintenance. The funds for these accounts are in a general checking account at a local bank or in individual savings accounts. The detail of transactions and account balances is maintained on a computerized accounting service called the Residents' Account System. The Center has a data-input terminal in which all transactions into and out of the accounts are entered. Because of the trust involvement of the agency in these matters, we reviewed very carefully the procedures for deposits and withdrawals and for entering the transactions into the computerized system. The bank is open twice a day for withdrawals and deposits and the transactions are carefully recorded and entered into the computerized system on the following day. The cash box is balanced at the end of each day, with the resident worker who acts as the banker and, periodically, the superintendent counting the cash and ascertaining the balance thereof. There appears to be adequate separation of duties between the actual deposits to the downtown bank, the handling of the cash at the Center, and the input to the accounting system. Individual savings account statements are received from the local bank on a semiannual basis, and those accounts are checked against the Residents' Account System and filed in the individual residents' files. The residents may, at any time, view a copy of their account. Most of the daily transactions are only a dollar or two dollars. In our sample, we found no errors in data input and, therefore, felt we could rely upon the balances shown on each individual resident's account.

Our problems with the system began when we reviewed the output from the computerized system. The Center staff did not appear to completely understand the various reports generated by the system. We had problems determining which reports we needed to prepare the schedule required by the Office of the Legislative Auditor for the reports.

We found that the cash in the bank on the Residents' Account System general ledger report was over \$300,000 more than the total of individual accounts and the actual cash reported by the local bank statement. We had expected to prepare our schedule by the four categories of accounts, but found summaries of additions and withdrawals only by checking and savings totals. Even the total of additions and withdrawals had to be manually summarized as the computer system does not generate that information.

Although we studied the instruction manual that was on hand at the Center, and later visited with Mr. John Thomas who manages the system for the Department of Institutions, we continue to have questions about the complexity of the computer system. We understand it has been designed to meet more than one application and that different institutions have different requirements. However, we never were able to ascertain the use of all of the various reports that are being produced and sent to the Center. We have questions as to which of these reports they should save and which should be reconciled. We did not completely satisfy ourselves as to why the system was out of balance with itself; that is, why the total cash in checking accounts in one report had one figure and, on another report, had another figure. While we hesitate to recommend such drastic action, we are not certain the computer system should not be completely revised, simplified and designed to use far less paper. As a result of our examination, we know that the system has had a review, both at the central office in Helena and at the Center, and some of the problems in balancing have been resolved. We recommend this process be continued until the account is in balance, and until all of those at the Center who need to work with it understand what they are doing and what reports they should be reconciling.

In addition to the money held for residents at the Center, many of the residents have personal property at the Center. This property may be jewelry, furniture, electronic equipment, clothing or, occasionally, a resident may purchase a piece of furniture or electronic equipment from their own funds while living at the Center. These items, at the present time, are informally listed on the back of the resident's information card at the office. There are facilities at the Center for putting in safe keeping valuable items. But items that are kept in the residents' rooms have very little security. We also understand that residents are free to dispose of their personal items at any time, according to their wishes, which makes it extremely difficult for the staff to keep track of these items. We recommend a formal statement be supplied to each resident or resident's guardian at the time they are admitted to the institution, stating that items kept in the room are not the responsibility of the Center and pointing out the availability of the safe-keeping areas. If, at that time, residents wish to place valuable articles in safe keeping of the Center, we feel the Center should sign for those items and, if they are subsequently removed from that safe keeping, the resident or guardian should sign to release the Center from obligation.

Recommendation:

- 1) We recommend the Center and central office review the Residents' Account System so that the reports are balanced and properly used.
- 2) We recommend a more formal procedure be established for safe keeping of residents' personal property.

Clothing and Medical Expenses for Residents

Section 53-21-142, MCA, states that residents of State institutions must be provided with suitable clothing as well as medical care, whether or not the resident can pay for those services from their own funds. We were told by the Center staff that these particular items had not been included in previous budgets and, therefore, the providing of such services was a drain on the current funding. We recommend that future budgets be carefully prepared to anticipate such costs and assure proper care requirements be met.

Recommendations:

- 1) We recommend that future budgets include expenditures for clothing and medical expense.

The Canteen

The Center maintains a canteen of various food items and small articles, which are available for purchase by residents at the center. The canteen is open twice a week, and residents may purchase items, either on an open account, or with a canteen coupon. During the period of our examination, the canteen was operated by the Recreation Department of the institution, and we found the record keeping for purchases was inaccurate and difficult to summarize. We examined some of the monthly summaries and postings to the residents' accounts, and found that the summaries did not always agree with our interpretation of the charges on the ledger cards. Recently, the operation of the canteen was transferred from the Recreation Department to the Business Office, and several new procedures have been implemented. We discussed with the business manager some suggestions we had for better ledger cards and better methods of monitoring purchases by the various residents. The staff was very receptive to these new ideas and we believe that they will be carried out.

Recommendation:

- 1) We recommend that a new ledger card system be established for the canteen.

Donations

Occasionally, cash donations are made to the Center, either as memorials for former residents or gifts. These funds have been deposited to the agency fund in the State Treasury. During the year under examination, there had been no additions to the account, and only one withdrawal for purchase of a scenic mural for a room at the Center. The Administrator at the Center indicated that, although there was no formal policy regarding acceptance of these donations or their use, the custom had been to use the funds only for items not covered in the budget, and which would benefit the residents at the Center unless the donee specified a particular item. We reviewed the available accounting entities and determined that the funds had been deposited to the best account available. We did discuss with the Administrator the need to develop a policy for the acceptance of donations and their use.

Recommendation:

- 1) We recommend the Center establish a policy to govern the acceptance and expenditure of donations.

Resident Work Program

The Center has instituted a 'Resident Work Program as part of a therapy program for residents. Residents are assigned to the work program by their physicians. The funds available for this program are rather limited. Residents who work in the program are paid. However, there was no formal schedule to set rate of pay. At the present time, residents are employed as the banker, working in the canteen, as housekeepers, in the kitchen, in the laundry, and doing yard work. The staff indicated that the program seemed to be expanding and that the doctors were, more and more, recommending work programs as therapy for various individuals. Section 53-21-167, MCA, requires patients to be compensated at a rate that bears the same approximate relation to the statutory minimum wage as his ability to perform that particular job bears to the ability of a person not so afflicted. To comply with the provision of the statutes, the Center staff developed a testing program, based on manual dexterity, and were anticipating using the results to determine the rate of pay for individuals. There is a concern about having adequate funds to pay residents involved in the work program. While we have no particular recommendation at this time regarding this program, we do feel it is a worthwhile effort of the Center, and commend them for their attempts to determine a proper pay scale and use of residents in their work program.

Care and Maintenance Accounts

Section 53-1-402, MCA, requires that residents pay for their care and maintenance whenever possible. Many of the residents are eligible for Medicare and Medicaid and their care is billed under those programs. Other residents have Social Security and/or other pension income deposited to their resident accounts and, as a result, are able to pay for at least a portion of their care from that account. We understand that the rate of billing for care and maintenance for all residents is determined under the Medicare and Medicaid procedures and then each resident's ability to pay is determined by the Reimbursement Section of the Department of Institutions. The Department of Institutions' procedure was to pay this billing from resident funds whenever it was available. Several months ago, a suit was filed on behalf of residents of all institutions in the State to enjoin the Department from making such payments without express authority from the residents or their guardians. We were told the suit has nearly been resolved and will result in conservatorship being established to authorize the care and maintenance payments. In the interim, the Center staff was notified monthly of the reimbursement amount, and they, in turn, transferred the payment from the patient's regular checking account to a trust account entitled "Care and Maintenance" for the credit of the resident. These funds are being held then in the checking account until such time as the litigation is settled. The funds are properly identified and safely held in trust. Therefore, we have no recommendations concerning this matter, but only wish to point out the procedure that was being followed.

Prior Audit Recommendations

The reports relating to the fiscal years 1975-76 and 1976-77 audit of the Center contain 20 recommendations. The Center has partially implemented or implemented 18 of those recommendations, and 2 are no longer applicable to the operation. Those recommendations which had not been completely implemented and which we felt needed further attention have been discussed in various sections of this report.

HAAS & HINTZ, PSC

RAE M. & WAYNE E.

CERTIFIED PUBLIC ACCOUNTANTS
(406) 443-6200
P. O. BOX 173
HELENA, MONTANA 59601

Legislative Audit Committee
Montana State Legislature
State Capitol Building
Helena, Montana 59601

Re: Audit of Center for the Aged at Lewistown, Montana

We have examined the balance sheet of the Department of Institutions, Center for the Aged, as of June 30, 1980, and the related statements of operations listed in the Table of Contents for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Center does not maintain a dollar control over fixed assets and supplies inventories on the Statewide Budgeting and Accounting System, but had recorded them on the Department of Institutions' Supply Inventory Management System (SIMS) as of June 30, 1980. Our review of SIMS indicated that fixed assets were generally accurately recorded; however, many items listed were less than \$200.00 in value and such items are usually considered supplies, rather than fixed assets. We could not readily determine if the overstatement was material. We have included a general Fixed Assets Fund in the balance sheet and prepared a supplemental schedule of changes in fixed assets which is included in our opinion.

Our review of the supplies inventory revealed numerous inaccuracies which appeared to materially affect the total dollar value, although we could not readily determine the amount of the discrepancy. It has been the practice of the Center to expense supplies when purchased; therefore, the supplies inventory is not included on the statements mentioned above. Generally accepted accounting principles for government entities allow supplies to be expensed when purchased; however, if supply inventories are material, they are required to be recorded in the system. The SIMS system records supplies at \$1,041,138. While we were unable to determine the true dollar value of the supply inventory, in our opinion, it is a material amount and should be included on the balance sheet to conform to generally accepted accounting principles.

The Center holds monies in trust for the residents and accounts for them on the computerized Resident Accounts System of the Department of Institutions. Our review indicated major inaccuracies in reports produced by the system and we determined we could not audit the general ledger system. We were unable to

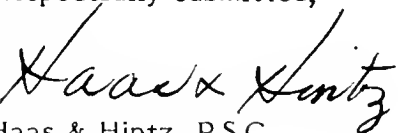
determine beginning or ending balances, or additions and withdrawals to the system. There was no indication that funds were missing but, being unable to provide a schedule of the account, we are unable to express an opinion on the reported balances. We have discussed further the problems found with the system in our recommendations and findings.

The Department of Institutions is required by statute to bill and collect from residents of the Center or their families or guardians reimbursement for their care and treatment. These revenues are not included in the Center's financial statements nor are any of the expenses incurred in collection included in the Center's statement of expenditures. The entire process is administered by the Reimbursement Section of the Department's Management Services Division and included in their financial reports. We have included a supplemental schedule of the billings and collections; however, we note that the collections were recorded on a cash basis, while the Center's operations are recorded on a modified accrual basis.

In our opinion, except for the possible overstatement of the fixed assets fund and the omission of the supplies inventory from the general fund, the Balance Sheet for All Funds, and the Combined Statement of Revenue, Expenditures, Withdrawals and Changes in Fund Balance, Budget and Actual present fairly the financial position of the Center for the Aged as of June 30, 1980, and results of its operations of such funds for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with preceding years.

The accompanying supplemental schedules, as listed in the Table of Contents, are not necessary for fair presentation of the financial statements but are presented as additional information. This information has been subjected to the tests and other auditing procedures applied in our examination of the financial statements and, except for those matters noted in paragraphs 4 and 5, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

 P.S.C.
Haas & Hintz, P.S.C.

Attachments

DEPARTMENT OF INSTITUTIONS
Center for the Aged

ALL FUNDS
Balance Sheet
June 30, 1980

| | Governmental Funds | | Proprietary Funds | Fiduciary Funds | Fixed Asset Funds | |
|---------------------------------------|-----------------------|--|----------------------|------------------------------|----------------------|--------------------------|
| | | Special Revenue Fund | Enterprise Fund | Trust and Agency Funds | | |
| | General Fund | Private and Federal Revenue Fund | Revolving Cash Fund | Agency Fund | Fixed Assets | TOTALS (Memo Only) |
| <u>Assets</u> | | | | | | |
| <u>Current Assets</u> | | | | | | |
| Cash in Treasury | | 837 | 3583 | 5681 | | 10,101 |
| Revolving Cash Fund | 500 | | | | | 500 |
| A/R Dishonored checks | 14 | | | | | 14 |
| Merchandise Inventory | | | 2294 | | | 2,294 |
| Appropriation Receivables | | | | | | |
| To pay accrual | | | | | | |
| Expenditures | 104,853 | | | | | 104,853 |
| Total Current Assets | 105,367 | 837 | 5877 | 5681 | -0- | 117,762 |
| <u>Fixed Assets</u> | | | | | | |
| Buildings | | | | | 2,074,138 | 2,074,138 |
| Furniture & Fixtures | | | | | 174,754 | 174,754 |
| Total Assets | 105,367 | 837 | 5877 | 5681 | 2,248,992 | 2,366,654 |
| <u>Liabilities & Fund Balance</u> | | | | | | |
| <u>Liabilities</u> | | | | | | |
| Accrued Expenditures | 104,853 | | 790 | | | 105,643 |
| Property Held in Trust | | | | 5681 | | 5,681 |
| Payable to General Fund | | 837 | | | | 837 |
| Total Liabilities | 104,853 | 837 | 790 | 5681 | -0- | 112,161 |
| <u>Fund Balance and Reserves</u> | | | | | | |
| Fund Balance | | | 5087 | | | 5,087 |
| Fixed Asset Fund Balance | | | | | 2,248,892 | 2,348,892 |
| Reserve for Revolv'g. A/C | | | | | | |
| Authorized by Dept. of Inst. | 500 | | | | | 500 |
| Reserve for A/R Dishon. Checks | 14 | | | | | 14 |
| Total Liabilities and Fund Balance | 105,367 | 837 | 5877 | 5681 | 2,248,892 | 2,366,654 |

HAAS & HINTZ, PSC

CERTIFIED PUBLIC ACCOUNTANTS
HELENA, MONTANA 59601

The accompanying notes are an
integral part of this statement

DEPARTMENT OF INSTITUTIONS
Center for the Aged

COMBINED STATEMENT OF REVENUE, EXPENDITURES, WITHDRAWALS,
& CHANGES IN FUND BALANCE - Budget and Actual,
For Fiscal Year Ended June 30, 1980

| | <u>GENERAL FUND</u> | | | <u>SPECIAL REVENUE</u> | | | <u>PROPRIETARY</u> | | |
|---|---------------------|---------------|-----------------|------------------------|---------------|-----------------|--------------------|---------------|-----------------|
| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
| <u>Revenue</u> | | | | | | | | | |
| Insurance Proceeds | | | | 3029 | 3029 | -0- | | | |
| PSE Reimbursement | | | | | | | | | |
| Canteen Sales | | | | | | | 10,800 | 9232 | (1568) |
| Total Revenue | | | | 3029 | 3029 | | 10,800 | 9232 | (1568) |
| <u>Expenditures</u> | | | | | | | | | |
| Administration | 144,984 | 141,644 | 3,340 | | | | | | |
| Clinical | 316,578 | 293,639 | 22,939 | | | | | | |
| Care and Custody | 1,004,949 | 1,043,237 | (38,288) | | | | | | |
| Therapy Program | 95,322 | 78,769 | 16,553 | | | | | | |
| Smoke Alarm Repair | | | | 3029 | 3029 | -0- | | | |
| Canteen | | | | | | | 10,000 | 7531 | (2469) |
| Donations | | | | | | | | | |
| Total Expenditures | 1,561,833 | 1,557,289 | 4,544 | 3029 | 3029 | -0- | 10,000 | 7531 | (2469) |
| Excess (Deficit) Revenue over Expenditures | | | | | -0- | | | 1701 | |
| Beginning Fund Balance July 1, 1979 | | | | | -0- | | | 2632 | |
| Adjustments - Net | | | | | | | | 754 | |
| Ending Fund Balance | | | | | -0- | | | 5087 | |

HAAS & HINTZ, PSC

CERTIFIED PUBLIC ACCOUNTANTS
HELENA, MONTANA 59601

DEPARTMENT OF INSTITUTIONS

Center for the Aged

Statement of Changes in Financial Position for Revolving Fund
For The Period Ended June 30, 1980

SOURCES OF WORKING CAPITAL

| | |
|--------------------------|------------|
| From Operations | \$ 1,701 |
| From Prior Year Revenues | <u>754</u> |
| | \$ 2,455 |

Uses of Working Capital

| | |
|-----------------------------|--------------|
| From Operations | -0- |
| | <u>-----</u> |
| Increase in Working Capital | \$ 2,455 |
| | <u>=====</u> |

CHANGES IN COMPONENTS OF WORKING CAPITAL

Increase (decrease) in Current Assets

| | |
|-----------------------|----------|
| Cash | \$ 2,171 |
| Merchandise Inventory | 1,074 |

Decrease (increase) in Current Liabilities

| | |
|--|-----------------|
| Accrued expenditure | <u>(790)</u> |
| Increase (decrease) in Working Capital | \$ <u>2,455</u> |
| | <u>=====</u> |

The accompanying notes are an integral part of this statement

HAS & HINTZ, PSC

CERTIFIED PUBLIC ACCOUNTANTS
HELENA, MONTANA 59601

Department of Institutions
- Center for the Aged -
Notes to the Financial Statements
Fiscal Year Ended June 30, 1980

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS) reports.

The State of Montana utilizes the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures in the fiscal period and are not received at the normal time of receipt.

Inventories

Although the Center maintains a supply inventory system, there is no provision in the SBAS for recording supplies inventory on the balance sheet. Therefore, they are expensed at the time of purchase, and not included in the asset section of the General Fund balance sheet.

General Fixed Assets

General fixed assets are recorded on the Department of Institutions' Supply Inventories Management System and have been included on the balance sheet as part of the audit procedures. General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase. Depreciation is not provided on general fixed assets.

Vacation and Sick Leave

Liability incurred for employees' unused vacation and sick leave is not recorded. The related expenditures are recorded when paid. Permanent employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation into 90 days of a new calendar year. Upon termination, qualified employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation, and 25 percent payment for sick leave. The liability amount associated with unused accumulated vacation and sick leave at June 30, 1980 is maintained on an hourly basis, rather than a dollar amount. The monetary liability is not calculated until an employee terminates.

II. EMPLOYEES' RETIREMENT SYSTEM

The Center's employees are covered by the Public Employees' Retirement System (PERS). Under the plan, the Center contributes 6.2 percent of employees' gross wages, and the employees contribute 6.0 percent of their gross wages to PERS.

The actuarial study on PERS was performed at June 30, 1978 and, at that time, the system was actuarially sound. The unfunded past-service costs and the actuarially computed value of vested benefits were not readily available for members of the plan employed by the Center.

III. NONAPPROPRIATED EXPENDITURES

The Center made one expenditure from the agency fund without an appropriation as permitted by state law.

IV. BASIS OF PRESENTATION

The accounts of the State of Montana are, by statute, organized into a fund structure outlined in Section 17-2-102, MCA. For financial presentation, these funds have been reclassified according to Governmental Accounting and Financial Reporting State ments.

A. Governmental Funds

a. General Fund -- The General Fund consists of all monies deposited into the State Treasury which are available to defray the general costs of State government and which do not fall into one of the other funds.

B. Proprietary Funds

a. Enterprise Fund -- Enterprise operations are operated in a manner similar to private business enterprises, where the governing unit intends to recover the costs of providing services through user charges.

C. Fiduciary Funds

a. Agency Fund -- the agency fund accounts for assets held by a governmental unit in a trustee capacity or as an agent for an individual.

D. Account Groups

Montana does not maintain a general fixed assets account group as required by generally accepted accounting principles. The Department of Institutions maintains a Supply Inventory Management System, which accounts for fixed assets and supplies inventories. Inventories are expensed when purchased, and are not recorded as assets. However, fixed assets have been added to the accompanying balance sheet.

E. Revenue and Expenditures

Revenue is defined as prime monies coming into the treasury fund structure. All other receipts are classified as income. Expenditures are defined as prime costs of operating State government. All other disbursements are recorded as withdrawals.

F. General Fund

The Department's financial statements do not reflect the State's consolidated General Fund cash balance because this cash is not an asset of the Center. Presentation of total General Fund cash would distort the financial position of the Center. Consolidated General Fund cash is the cash balance available to pay all State agencies' General Fund obligations.

V. ADJUSTMENTS TO FINANCIAL STATEMENTS

Financial statements include adjustments to correct coding errors and, therefore, will not agree with SBAS reports, as follows:

1. Repairs to the smoke alarm system were incorrectly coded to the General Fund, rather than the insurance proceeds account. Corrections had been made in SBAS prior to completion of the examination.
2. SBAS reports show a cash balance in the federal and private revenue fund, which is an advance to this fund from the General Fund to pay salaries for public service employees. The Center had no public service employees in fiscal year 1980, and the balance had not been transferred back to the General Fund as of June 30, 1980.

VI. SUPPLEMENTAL SCHEDULE OF RESIDENT BILLINGS AND COLLECTIONS

The supplemental schedule of resident billings and collections was prepared on a cash basis. Billings are made only to residents not on Medicare and Medicaid who are able to pay for their care from other sources. The total billable amount was \$1,328,628, with \$124,941 uncollectible.

Funds transferred from residents' checking and savings accounts held in trust by the Center are currently recorded in a trust account for care and maintenance. The Department of Institutions' authority to transfer funds for that purpose was challenged and no further payments will be made to the General Fund until the litigation is settled.

DEPARTMENT OF INSTITUTIONS
Center for the Aged

COMBINED STATEMENT OF EXPENDITURES BY OBJECT
COMPARED WITH APPROPRIATIONS - BUDGET & ACTUAL
General Fund - By Reporting Center
For the Period Ended June 30, 1980

| | ADMINISTRATION | | VARIANCE | CLINICAL | | VARIANCE | CARE & CUSTODY | | VARIANCE | THERAPY | | VARIANCE | TOTAL (MEMO ONLY) | | VARIANCE |
|------------------------|----------------|---------------|----------------------------|---------------|---------------|----------------------------|----------------|----------------|----------------------------|--------------|--------------|----------------------------|----------------------|----------------|----------------------------|
| | BUDGET | ACTUAL | FAVORABLE (UNFAVORABLE) | BUDGET | ACTUAL | FAVORABLE (UNFAVORABLE) | BUDGET | ACTUAL | FAVORABLE (UNFAVORABLE) | BUDGET | ACTUAL | FAVORABLE (UNFAVORABLE) | BUDGET | ACTUAL | FAVORABLE (UNFAVORABLE) |
| <u>Revenue</u> | | | | | | | | | | | | | | | |
| Appropriations | 144984 | 144984 | -0- | 316578 | 316578 | -0- | 1004949 | 1004949 | -0- | 95322 | 95322 | -0- | 1561833 | 1561833 | -0- |
| <u>Expenditures</u> | | | | | | | | | | | | | | | |
| Personnel Services | 81357 | 79540 | 1817 | 168758 | 151794 | 16964 | 610126 | 600428 | 9698 | 56143 | 45650 | 10493 | 916384 | 877412 | 38972 |
| Hourly Wages | 10455 | 10628 | (173) | 64157 | 63229 | 928 | 38253 | 39256 | (1003) | 22399 | 17585 | 4814 | 135264 | 130698 | 4566 |
| Employee Benefits | 16273 | 16095 | 178 | 47688 | 42084 | 5604 | 143618 | 138597 | 5021 | 12295 | 9877 | 2418 | 219874 | 206653 | 13221 |
| Contract Services | 25466 | 18622 | 6844 | 8000 | 9825 | (1825) | 13600 | 22664 | (9064) | 300 | 449 | (149) | 47366 | 51560 | (4194) |
| Supplies and Materials | 2802 | 6047 | (3245) | 27600 | 23660 | 3940 | 130600 | 155823 | (25223) | 2550 | 3663 | (1113) | 163552 | 189194 | (25642) |
| Communications | 4575 | 7707 | (3132) | | 4 | (4) | | | | | 53 | (53) | 4575 | 7764 | (3189) |
| Travel | 940 | 540 | 400 | 75 | 123 | (48) | 25 | | 25 | | 5 | (5) | 1040 | 668 | 372 |
| Rent | 1100 | 12 | 1088 | | 20 | (20) | | | | 1300 | 800 | 500 | 2400 | 832 | 1568 |
| Utilities | | | | | | | 53607 | 64411 | (10804) | | | | 53607 | 64411 | (10804) |
| Repair & Maintenance | | 33 | (33) | | 2691 | (2691) | 7500 | 14502 | (7002) | | 233 | (233) | 7500 | 17458 | (9958) |
| Other | 296 | 1020 | (724) | | 86 | (86) | 220 | 268 | (48) | | 129 | (129) | 516 | 1503 | (987) |
| Equipment | 1720 | 1400 | 320 | 300 | 123 | 177 | 7400 | 7288 | 112 | 335 | 300 | 35 | 9755 | 9111 | 644 |
| Livestock | | | | | | | | | | | 25 | (25) | | 25 | (25) |
| Total Expenditures | <u>144984</u> | <u>141644</u> | <u>3340</u> | <u>316578</u> | <u>293639</u> | <u>22939</u> | <u>1004949</u> | <u>1043237</u> | <u>(38288)</u> | <u>95322</u> | <u>78769</u> | <u>16553</u> | <u>1561833</u> | <u>1557289</u> | <u>4544</u> |

HAS&HINTZ, PSC

CERTIFIED PUBLIC ACCOUNTANTS
HELENA, MONTANA 59601

DEPARTMENT OF INSTITUTIONS

Center for the Aged

Statement of Additions & Deletions to General Fixed Assets
For Year Ended June 30, 1980

| | |
|------------------------|---------------------------|
| Balance, June 30, 1979 | \$2,251,504 |
| Additions | -0- |
| Deletions | <u> (2,612) </u> |
| Balance, June 30, 1980 | <u><u>\$2,248,892</u></u> |

The accompanying notes are an integral part of this statement

HAAS & HINTZ, PSC

CERTIFIED PUBLIC ACCOUNTANTS
HELENA, MONTANA 59601

DEPARTMENT OF INSTITUTIONS
Center for the Aged
Resident Billings and Collections
by the Department of Institutions
for the Period Ended June 30, 1980

| <u>Resident Billing</u> | <u>Accommodations</u> | <u>Medications</u> | <u>Physician Services</u> | <u>TOTALS (Memo Only)</u> |
|---------------------------------|-----------------------|--------------------|-------------------------------|-----------------------------------|
| Medicaid | \$ 843,665 | \$ 16,558 | \$ 99 | \$ 860,322 |
| Private | 358,335 | 0 | 0 | 358,335 |
| Medicare | 1,327 | 0 | 0 | 1,327 |
| | ----- | ----- | ----- | ----- |
| TOTAL Amount Billed | <u>\$1,203,327</u> | <u>\$ 16,558</u> | <u>\$ 99</u> | <u>\$1,219,984</u> |
| <u>Resident Collections</u> | | | | |
| Medicaid | \$ 837,562 | \$ 13,991 | \$ 0 | \$ 851,553 |
| Private | 129,807 | 0 | 0 | 129,807 |
| Medicare | 805 | 0 | 0 | 805 |
| Patient Account to Trust | 172,140 | 0 | 0 | 172,140 |
| | ----- | ----- | ----- | ----- |
| TOTAL Amount Collected | <u>\$1,140,314</u> | <u>\$ 13,991</u> | <u>\$ 0</u> | <u>\$1,154,305</u> |
| <u>DIFFERENCE</u> | | | | |
| TOTAL Amount Billed | \$1,203,327 | \$ 16,558 | \$ 99 | \$1,219,984 |
| TOTAL Amount Collected | 1,140,314 | 13,991 | 0 | 1,154,305 |
| | ----- | ----- | ----- | ----- |
| DIFFERENCE | <u>\$ 63,013</u> | <u>\$ 2,567</u> | <u>\$ 99</u> | <u>\$ 65,679</u> |

The accompanying notes are an integral part of this statement

HAAS & HINTZ, PSC

CERTIFIED PUBLIC ACCOUNTANTS
HELENA, MONTANA 59601

DEPARTMENT OF INSTITUTIONS
Center for the Aged
Schedule of Capital Project
for Year Ended June 30, 1980

| | |
|---------------------|--------------------------|
| Appropriation | \$180,000.00 |
| Expenditures | |
| Advertising | 75.60 |
| Contracted Services | <u>16,463.75</u> |
| Total | \$ 16,539.35 |
| Unexpended Balance | <u><u>163,460.65</u></u> |

The accompanying notes are an integral part
of this statement.

HAAS & HINTZ, PSC

CERTIFIED PUBLIC ACCOUNTANTS
HELENA, MONTANA 59601

DEPARTMENT OF INSTITUTIONS



THOMAS L. JUDGE, GOVERNOR

1539 ELEVENTH AVENUE

STATE OF MONTANA

(406) 449-3930

HELENA, MONTANA 59601

October 14, 1980

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, MT 59601

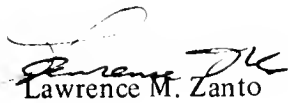
Gentlemen:

We have reviewed the audit report prepared by the firm of Haas and Hintz, Certified Public Accountants, of the Center for the Aged.

The report provides a very welcome service and is sincerely appreciated.

Our response to recommendations is attached.

Sincerely,


Lawrence M. Zanto
Director

LMZ:jw

Attachment

Center for the Aged
Audit Report Responses

Recommendations:

Accounting Procedures

1. We recommend the Center request assistance from the Accounting Division, Department of Administration, in the use of SBAS for management purposes and to assist with training for the clerical staff.

Response:

The Center agrees with this recommendation. The Department of Administration, Accounting Division, will be contacted requesting additional SBAS training.

Inventories

1. We recommend that fixed asset groupings be established for like assets, such as chairs and mattresses, if they are to be recorded on the fixed assets inventory.

Response:

The Center will implement this recommendation, as appropriate, when new assets are purchased and recorded.

2. We recommend that the supply inventories be checked and corrections made to the SIMS records.

Response:

The Center will correct and verify all entries which have been made to the Supplies Inventory Monitoring System.

3. We recommend that journal entries be made to the Statewide Budgeting and Accounting System to enter and update supplies and fixed asset inventories.

Response:

The Center agrees with recommendation, however, until SBAS is modified this cannot be done. The Department of Administration is currently looking into modifying SBAS for Inventory Accounting.

Personnel

1. We recommend that the Center seek the additional FTEs needed to provide fulltime, 24-hours-per-day supervisory personnel.

Response:

The Center has requested additional FTEs in the 1982-83 Budget which would comply with this recommendation.

2. We recommend that the Center request from the Personnel Division permission to use shared positions for a FTE whenever it is feasible.

Response:

The Center will look into changing some of the FTEs to Aggregate positions and make changes if the study warrants it.

3. We recommend the Center make adequate plans to meet termination pay liabilities.

Response:

The Center will comply with this recommendation within Budget limits. Funding of termination pay has to be addressed statewide by the Legislature.

Residents' Account System

1. We recommend the Center and Central Office review the Residents' Account System so that the reports are balanced and properly used.

Response:

The Center will reconcile the System to the Bank Accounts on a monthly basis, and will request the assistance of Central office when necessary to keep the system in balance.

2. We recommend a more formal procedure be established for safekeeping of residents' personal property.

Response:

The Center agrees and will develop a letter to all existing residents. They will also inform all new residents of their responsibility for personal property. The availability and procedure for safekeeping will also be promulgated.

Clothing and Medical Expenses for Residents

1. We recommend that future budgets include expenditures for clothing and medical expense.

Response:

Additional funds for medical and clothing expenditures have been requested in the 1982-83 Budget.

The Canteen

1. We recommend that a new ledger card system be established for the canteen.

Response:

The Center agrees to look into setting up a format for a new ledger card.

Donations

1. We recommend the Center establish a policy to govern the acceptance and expenditure of donations.

Response:

The Center agrees with this recommendation and will request a Department Policy for spending donated funds.

